Supreme Court of the United States

OCTOBER TERM, 1917.

WILLIAM H. ODELL, Complainant-Appellant, *against* F. C. FARNSWORTH COMPANY and FARNSWORTH MANUFACTURING COMPANY, Defendants-Appellees.	No. 498.

Appeal by complainant from a decree of the United States District Court, for the Southern District of New York, dismissing complainant's bill for want of jurisdiction.

BRIEF FOR APPELLANT.

Statement of Case.

This case came on to be heard in the court below on the bill of complaint and answer and motion to dismiss. The bill was dismissed for the "want of jurisdiction."

The certificate of the judge shows the court was of the opinion that the cause of action set forth in the bill amounts to an action under a contract and is not a suit arising under the patent laws, and as the bill shows the sum involved to be less than three thousand dollars, the court was with out jurisdiction.

The question therefore is:

Is this a "case arising under the patent laws of the United States."

Statement of Facts.

The plaintiff, William H. Odell, is a citizen and resident of the Southern District of New York. The defendant F. C. Farnsworth Company is a Deleware corporation and the defendant Farnsworth Manufacturing Company is a Massachusetts corporation. Therefore, there is no question arising as to the jurisdiction because of diversity of citizenship.

The plaintiff, William H. Odell, is the inventor of a new and useful invention in steam traps for which Letters Patent No. 837,711, issued to him December 4, 1906.

On September 8, 1914, by an instrument in writing the plaintiff granted the defendant F. C. Farnsworth Company, the sole and exclusive right to to manufacture and sell the apparatus. Plaintiff was to receive $100 within six months from the date of the execution of the instrument and $5 upon each apparatus sold by said company until he had received the sum of $1,800 in royalties.

Thereafter the Farnsworth Manufacturing Company took over the assets and liabilities of the F. C. Farnsworth Company.

Both defendants manufactured and sold steam traps and the bill of complaint alleges that the defendants have sold a large number of these steam traps which include the invention of the patent and on which royalties have accrued and which have not been paid except that the defendants did account and pay for five steam traps. It

further alleges that the defendants pretend to be manufacturing and selling devices which are not covered by said patent, but avers that nevertheless the said devices so made and sold by defendants are covered by and included within the scope of the patent in question, and the terms and conditions of the agreement aforesaid, and asks for an order of discovery and for an accounting.

The defendants filed an answer to the bill treating it as a usual suit brought under the patent laws of the United States. They deny the validity of the Odell patent and deny the existence of or any liability under the contract alleged in the bill.

When the case was reached on the calendar for trial, counsel for the defendants moved to dismiss the bill claiming the Court was without jurisdiction.

Argument.

It is respectfully submitted that the facts set forth in complainant's bill and the defenses filed in answer to the allegations in said bill raise the issues of the existence and validity of the Odell patent and if infringement of it by the defendants, and therefore constitute a "case arising under the patent laws of the United States" of which the Federal Courts have exclusive jurisdiction.

1st. These facts show that on December 4, 1906, the Commissioner of Patents allowed and granted to complainant, William H. Odell, a patent for improvements in steam traps, which defendants deny.

2nd. That by fraudulent conduct on the part of his assignee, the said Odell has been and is being wrongfully deprived of his property rights so

granted to him by his patent by defendant's infringement of it, which fact defendants deny.

3rd. That in order to establish the extent of this deprivation plaintiff must have the aid of the Court in construing his patent, in determining its validity and whether or not it has been infringed, and in compelling the defendants to make a discovery of all the devices made under his patent, and to account for such infringement.

The complainant while asking the Court only for a discovery and an accounting is in fact asking for relief from the fraudulent conduct on the part if the defendants in depriving him of his patent property.

Primarily he wants such relief.

Secondarily he asks for an accounting of the royalties due him for granting defendants a right under his patent.

The granting of the primary relief asked for in the bill is not within the power of a state court.

A suit, the primary and controlling purpose of which is to enforce a right secured by the patent or copyright laws, which right is being infringed by the defendant, is a suit under those laws and within the exclusive jurisdiction of the Federal Circuit Courts, even though it may incidentally draw in question the validity, interpretation, enforcement, and effect of a contract through which the complainant may derive title or be aggrieved.

Wooster, *et al. v.* Crane & Co., 147 F. R., 515, 516;

Littlefield *v.* Perry, 21 Wall., 205-222;

Excelsior W. P. Co. *v.* Pacific Bridge Co., 185 U. S., 282, 290, 295;

Atherton Mach. Co. *v.* Atwood Morrison Co., 102 F. R., 949;
Victor Talking Machine Co. *v.* The Fair, 123 F. R., 424;
Harrington *v.* Atlantic & Pacific Tel. Co., 143 F. R., 329-330.

In this case the gravamen of the complaint; the controlling charges is, that plaintiff has a valid patent and *that the defendants are pretending to make and sell certain devices which are not covered by complainant's patent but that complainant alleges that said steam traps so pretended not to be made under his patent, nevertheless are covered by same.*

The fact that the defendants deny that it is manufacturing or selling steam traps under complainant's patent in their answer and deny that the patent of Odell is valid, claiming that it is invalidated by prior uses and by prior patents raises the issues of validity and infringement of the Odell patent.

It necessitates the Court taking proof to determine the validity and scope of the complainant's patent and to determine whether the devices of the defendants come within its scope. In effect the suit necessitates the enquiry whether there would be infringement if the defendants were not operating under a license from the plaintiff.

This is truly an action arising under the patent laws of the United States and the Federal Courts have exclusive jurisdiction over the same.

As was said by the Supreme Court in Littlefield *v.* Perry, 21 Wall., 205:

> "Such a suit may involve the construction of a contract as well as of a patent, but that

> will not oust the Court of its jurisdiction. If a patent is involved it carries with it the whole case. * * * A court of equity looks to the substance rather than to the form."

The assignment and contract is set forth in the bill of complaint for the purpose of showing complainant's title and right in his patent and not as the basis or foundation of the suit. The agreements are merely incidental to the real complaint.

> Wooster *et al. v.* Crane & Co., 147 Fed., 515 C.C . A., Eighth Circuit.

If it should be held on final hearing that the devices made and sold by defendants and complained of, are not covered by and included in the terms and scope of complainant's patent, then complainant has no case. If on the other hand, it is held that such devices are covered by and included within the scope of complainant's patent, and is dominated thereby, then complainant is entitled to the relief he prays for.

As already pointed out the wrong committed by the defendants, and which is complained of, is solely a question of infringement of the patent in suit. The cause of action and relief prayed is not merely an alleged breach of contract of license under the patent and for an account of licensed articles sold thereunder and a decree of payment accordingly. The breach of the contract flows from the infringement alleged. If there has been no infringement then there has been no breach, so far as the present bill is concerned. If the devices made and sold by defendant, and which are alleged to be infringements are held not to be an infringement, or if complainant's patent is held not to be valid nor of sufficient breadth

and scope to cover and include said infringing devices, then there is no breach of the contract and no accounting necessary. Therefore the cause of action is not the breach of the contract except as such breach grows out of the real cause of complaint, namely, infringement of complainant's patent.

The lower court holds that the case of Briggs *v.* Shoe Company, 239 U. S., 48, is controlling in respect to this case, but an examination of the facts of that case shows that it is not in any way parallel to the case at bar.

There was no contention in that suit that the structure of the Eppler patent came under the terms of the contract as in the case at bar. It was not necessary to construe the patent nor determine whether the defendants' devices were covered by the Briggs patent in that suit. The suit was primarily an action for royalties and in order to collect those royalties it was necessary to have the Eppler patent annulled.

The case at bar is similar to the case of Leslie *v.* Wm. Manne, reported in 157 Fed. Rep., 236, in which Judge Hazel overruled a demurrer to the complaint on the question of jurisdiction.

In that case defendant pretended to be operating under a patent issued after the agreement and claimed that the patent it was operating under was for a *different* construction than the patent in suit. Here, again, this case was differentiated from the case of Briggs v. United Shoe Machinery Company, where there was no dispute as to the structure involved.

Judge Hazel in the Leslie *v.* Mann case stated in his opinion:

> **"I am inclined, however, to hold that the complainant is entitled to the equitable interposition of this Court even though no relief by way of injunction is demanded. The gist of the bill upon which the accounting seems to depend is the manufacture and sale of devices by the defendant which are protected by the patents in suit. It was obviously the duty of the defendant to have protected the complainant against infringers, but taking the allegations of the bill as true, it has in fact become an infringer by the manufacture and sale of the Deckert device. Whatever rights the defendant had to make and sell the devices in suit were obtained from the complainant, and in my judgment *the bill sufficiently charges infringement of the complainant's patented devices by the use of the Deckert construction with the object, as claimed, of depriving the patentee of his royalties and commissions. A decision of the controversy involves the construction of the patents and claims in suit and of the Deckert patent to ascertain whether there has been infringement by the defendant, and therefore I think this is an action, suit or controversy under the patent law and within the jurisdiction of this Court.*"**

It is true that when a royalty has been established or a license granted for the manufacture and sale of a patented article the recovery of damages for failure to comply with the agreements must be in an action on the contract, but in this case, as already pointed out, it is essential to establish the validity of the patent and its infringement by the defendant before there can be an accounting, and these are the issues raised by the pleadings.

Therefore, as Judge Hazel stated in another case,

Harrington *v.* Atlantic and Pacific Telegraph Company, 143 Fed. Rep., 329-330, "even though contract rights are involved, if the question of infringement of patents is also presented, the Court is not deprived of jurisdiction."

To the same effect is

Littlefield *v.* Perry, 21 Wall, 205;
Excelsior W. P. Co. *v.* Pacific Bridge Co., 185 U. S., 285;
White *v.* Rankin, 144 U. S., 628;
Wooster *v.* Crane & Co., 147 Fed., 515;
Atherton Mach. Co. *v.* Atwood Morrison Co., 102 Fed. Rep., 949;
Victor Talking Machine Co. *v.* The Fair 123 Fed., 424.

The case of Excelsior W. P. Co. *v.* Bridge Co., 185 U. S., 284, decided May 2, 1902 is more in point with the present state of facts than that of Briggs *v.* United Shoe Machinery Company. Mr. Justice Brown in a careful opinion goes into the question of jurisdiction of the Federal Courts in such an action as the case at bar, and cites many cases upon the point and on the statement of facts before the court reversed the lower court which dismissed the bill on the ground that the action did not arise under the patent laws. Judge Brown says:

> "The most important question is whether this is a suit under the patent laws of the United States within the meaning of Rev. Stat. Sec. 629, Sub. 9, which grants original jurisdiction to the Circuit Courts of all suits at law or in equity arising under the patent or copyright laws of the United States. The rule is well settled that if the suit be brought to en-

> force or set aside a contract, though such contract be connected with the patent, it is not a suit under the patent laws, and jurisdiction of the Circuit Court can only be maintained upon the ground of diversity of citizenship. *But difficulties sometimes arise in determining whether the action be upon a contract or upon the patent.*"

Judge Brown then points out what cases are clearly action for the recovery of royalties and where no questions under the patent laws are involved, citing Albright *v.* Teas, 106 U. S., 613; Dale Tile Mfg. Co. *v.* Hyatt, 125 U. S., 46; Felix *v.* Scharnweber, 125 U. S., 54; Marsh *v.* Nichols, 140 U. S., 344; Wade *v.* Lawder, 165 U. S., 624; and Pratt *v.* Paris Light and Coke Co., 168 U. S., 255.

He then points out that there is a

> "complete distinction between a *case* and a *question* arising under the patent laws."

He states that:

> "The former arises when the plaintiff in his opening pleading—be it bill, complaint or declaration—sets up a right under the patent laws as ground for a recovery." Of such cases the State Courts have no jurisdiction.
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> "The latter," the opinion goes on, "may appear in the plea, or answer or in the testimony. The determination of such a question is not beyond the competency of the state tribunals."

Following Justice Brown's reasoning the complaint in this suit has set up his rights under the patent laws as a ground for a recovery.

The bill makes the usual allegations of a bill for infringement and puts in issue (1) the title of the

plaintiff which in this case is an equitable title as evidenced by the agreement attached to the bill (2) the validity of the patent (3) the infringement. The answer filed puts all these issues in controversy. Therefore, it is contended that this is a "case" arising under the patent laws. Justice Brown points out that the court is also bound to consider the averments of the answer and cited Robinson *v.* Anderson, 121 U. S., 522, in which case the Chief Justice said:

> "Even if the complaint, standing by itself, made out a case of jurisdiction, which we do not pass upon, it was taken away as soon as the answers were in because if there was jurisdiction at all it was by reason of the averments in the complaint as to what the defenses against the title of the plaintiffs would be, and they were of no avail as soon as the answers were filed and it was made to appear that no such defenses were relied on."

Is there anything in the answer in the case at bar to show that the Court was bound to dismiss the bill for want of jurisdiction? The answer denies any information as to the validity of the patent. It also denies the acts charging infringement; it denies the license. It will be observed that the answer makes no question of the construction of the license but merely of its existence, that is, of the title of the plaintiff to sue. It is contended that the answer in this case puts in issue the plaintiff's title, the validity of the patent and the infringement. Now, it may be freely conceded that if the licensee had failed to observe any one of the conditions of the license the plaintiff would have been obliged to resort to the State Courts, either to recover the royalties or to

procure the revocation of the license. Such a suit would not involve any question under the Patent Law. But this case is expressly for the purpose of ascertaining whether or not the defendants have infringed upon the patent, and if the Court so finds infringement after construing the patent and the alleged infringing devices, then the question whether or not the licensee had failed to observe the conditions of the license would be known to plaintiff and licensee and then perhaps if royalties were not paid in compliance with said license the plaintiff would have to resort to the State Courts.

This matter is carefully discussed in the above cited case of Excelsior W. P. Co. *against* Bridge Co., 185, U. S., 284, by Mr. Justice Brown.

It is submitted, therefore, that this suit *is* a *case* arising under the patent laws of the United States and therefore one over which the jurisdiction of the Federal Court is exclusive.

The decree should be reversed and the cause remanded.

New York City, January 23, 1919.

Respectfully submitted,

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